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India

Coffee Annual

Little Buzz with Production Forecast Lower

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Report Highlights:

India's MY 2015/16 coffee crop (Oct/Sep) is forecast at 5.17 million 60 kg bags as poor blossom showers lowered yield prospects of both Arabica and Robusta. Coffee growing regions in Southern India continue to struggle with insufficient rain. Exports in 2016/17 are forecast just over 5 million 60 kg bags. Domestic consumption shows signs of marginal improvement on a low per capita basis. Carryover stocks are expected to keep domestic prices in check.

Commodities:

Coffee, Green

Production:**General Overview**

Coffee, Green	2014/2015		2015/2016		2016/2017	
Market Begin Year	Oct 2014		Oct 2015		Oct 2016	
India	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	412	423	410	410	-	408
Area Harvested	372	386	370	370	-	365
Bearing Trees	553	556	541	541	-	532
Non-Bearing Trees	79	82	91	91	-	100
Total Tree Population	632	638	632	632	-	632
Beginning Stocks	2,026	2,026	2,691	2,586	-	2,677
Arabica Production	1,630	1,633	1,490	1,490	-	1,417
Robusta Production	3,810	3,817	3,810	3,810	-	3,753
Other Production	-	-	-	-	-	-
Total Production	5,440	5,450	5,300	5,300	-	5,170
Bean Imports	1,080	1,157	1,000	1,000	-	1,008
Roast & Ground Imports	3	2	3	3	-	2
Soluble Imports	42	45	38	38	-	40
Total Imports	1,125	1,204	1,041	1,041	-	1,050
Total Supply	8,591	8,680	9,032	8,927	-	8,897
Bean Exports	3,200	3,358	3,500	3,500	-	3,577
Rst-Grnd Exp.	4	11	3	5	-	7
Soluble Exports	1,496	1,525	1,497	1,495	-	1,466
Total Exports	4,700	4,894	5,000	5,000	-	5,050
Rst,Ground Dom. Consum	770	770	650	650	-	667
Soluble Dom. Cons.	430	430	600	600	-	600
Domestic Consumption	1,200	1,200	1,250	1,250	-	1,267
Ending Stocks	2,691	2,586	2,782	2,677	-	2,580
Total Distribution	8,591	8,680	9,032	8,927	-	8,897

(1000 HA), (MILLION TREES), (1000 60 KG BAGS)

Production Forecast Lower with Delayed and Insufficient Rainfall

Marketing year (MY) 2016/17 (Oct/Sep) coffee production is forecast at 5.17 million 60 kg bags (310,180 metric tons). The 2016/17 crop is expected to be lower than the 2015/16 production estimate on account of poor post-blossom and backing showers (Mar-Apr) that affected yields as well as a reduction in harvested acreage and number of bearing trees. Backing showers are a must for fruit set and the lack of rains during February and March coupled with limited access to irrigation effected fruit setting and retention in both Arabica and Robusta crop.

Robusta is the more popular variety and constitutes over 70 percent of India's coffee crop. The Arabica crop is expected to bear slightly lower fruit than last year owing to moisture stress and deficient rain. Traditionally, the harvest of Arabica takes place from November to January, while for Robusta, harvest is December to February.

The coffee production estimate for MY 2015/16 remains unchanged at 5.3 million 60 kg bags. This is below the Coffee Board post-monsoon estimate of 5.83 million 60 kg bags (350,000 metric tons). As FAS Mumbai mentioned in [IN5139](#), the Coffee Board revised the MY 2015/16 production estimate downward from 5.9 million 60 kg bags to 5.83 million 60 kg bags in December 2015. During the Northeast Monsoon (Oct-Dec), the southern coffee growing states received above normal rainfall; especially, in December which led to incidence of berry droppings, the emergence of pests and disease, and slight yield loss.

According to the Indian Meteorological Department, the period from March 1, 2016 to April 27, 2016, the coffee growing district in Chikmagalur (southern Karnataka) received 17.6 millimeters (mm) of rainfall which is 72 percent below the normal rainfall. During the same time period, the Kodagu district of Karnataka received only 32.3 mm rainfall (67 percent below normal) and the Hassan district of Karnataka received 36.1 mm of rain (38 percent below normal). Similarly, with other major coffee growing states, Kerala was 57 percent below normal rainfall. Trade sources indicate that growers in certain coffee growing districts in Karnataka have been issued notices by local authorities restricting the usage of water for irrigation purposes.

In December 2015, the Coffee Board of India published the final production estimate for MY 2014/15 at 5.45 million 60 kg bags. Accordingly, FAS Mumbai revised the production estimate to reflect official data.

India Coffee Types Dominated by Robusta

The Arabica plants are self-pollinating and are typically grown at higher elevation under rain-fed conditions. The plants are grown under shade to prevent variation in soil temperature and moisture levels as well as for protecting the plants in case of heavy rainfall. In India, there is a two-tier shade for Arabica crop. The higher canopy shade (30-40 feet) is mostly evergreen trees such as Indian rosewood / jackfruit while Dadap / Silver oak are used for the lower canopy shade (15-20 feet). The leaf litter from these trees acts as soil cover and prevents the direct impact of rain water and soil erosion. The planting space in Arabica crop is 6 feet by 6 feet with an average of 3,000 plants per hectare. The Robusta crop planting space is 10 feet by 10 feet with about 460 plants per hectare. As Arabica is a deep rooted plant, it is able to sustain itself during drought conditions, but Robusta, with its shallow roots, requires irrigation during the season. There has been a shift from Arabica to Robusta plantations due to the susceptibility of the Arabica crop to stem borer pest and leaf rust. With the changes in the distribution pattern of the rains in the last decade, the elevation at which Arabica is grown is pushing the cultivation

much higher. More than 60 percent of the labor working at the estates is contracted during the harvesting season.

Table 1. India: Coffee Types

Processing Method	Coffee Varieties Cultivated in India	
	Arabica	Robusta
Washed (wet processed)	Parchment / Plantation Coffee	Parchment
Unwashed (natural/dry processed)	Cherry	Cherry

Crop Area and Total Tree Population Virtually Unchanged

Area harvested and plant inventory estimates are marginally lower than last year as older trees are replaced with newer trees thus adding more non-bearing trees. India accounts for about four percent of world coffee production and exports. Production mostly originates in the southern states of Karnataka, Kerala, and Tamil Nadu which account for 82 percent of planted area. The non-traditional lower-yielding states of Andhra Pradesh, Orissa, and other northeastern states have seen a marginal increase in area, but opportunities for planted area expansion in these states is limited. Across India, with coffee estates in close proximity to protected forest reserves, there is limited opportunity for further area expansion. Growers are gradually replanting their aging plantations at an annual rate of 2-3 percent per year which leaves a difference of approximately 40,000 ha between harvested and planted area.

The rains in February and March are very crucial in determining the actual crop yield. Pre-monsoon rains (blossom showers) in March-April have been well below normal in all traditional coffee growing states. The well distributed rains will provide irrigation and moisture to the Robusta plants, but deficient rains and high temperatures can lead to poor fruit set, and prolonged drought after fruit set increases production of lower grade beans and ultimately loss in crop yield. White Stem borer remains a major pest issue affecting the Arabica crop. Other major fungal diseases such as leaf rust and black rot are the most widespread coffee diseases in India.

Cross Commodity Competition and Commercial Co-production

Planters have diversified their coffee holdings by growing multiple crops under shade. Black pepper is a popular intercrop in Arabica plantations and the same has been supported by the Coffee Board. A major concern is that prices of pepper have risen last year from Rs 550 per kg to Rs. 675 per kg prompting growers to prune a lot of vines. As a result, the pruning of the trees with vines has affected the shade required for Arabica production. Typically, the income generated is divided equally between coffee and pepper. But as coffee prices have remained subdued, rising pepper prices have supported the growers. Other crops that contribute towards the gross income of commercial coffee estates include silver oak, areca nut, orange and cardamom.

Climbing Input Costs and Specific Subsidy Elimination Equates to Rising Producer Costs

Recent increases in the cost of farm inputs, along with the elimination of subsidies for fertilizer and diesel, have increased production costs for growers. Labor costs, which account for more than 50 percent of the cost of cultivation, continue to escalate. With increasing off-farm employment

opportunities, coffee planters have started experiencing shortages of skilled labor. Trade sources indicate a 10 percent increase in the fertilizer costs in the past one year. Because of uneven terrain and small and fragmented growing areas, the adoption of mechanization has been slow and limited to a few coffee plantations. According to Coffee Board of India statistics, the general daily wage rate in state of Karnataka increased by 9 percent from Rs. 228 (US\$3.41) to Rs. 248 (US\$3.71) per day between April to December last year.

Table 2. India: Estimated Number of persons engaged in coffee cultivation

Karnataka	487,048
Kerala	43,938
Tamil Nadu	26,075
Non Traditional Area (Odisha and Andhra Pradesh)	59,664

Source: Ministry of Commerce and Industry, December 2015

Table 3. India: Planted Area of Coffee in Major States of India (in hectares)

State	2013/14			2014/15		
	Arabica	Robusta	Total	Arabica	Robusta	Total
Karnataka	109,003	121,330	230,333	109,032	121,402	230,434
Kerala	4,175	81,184	85,359	4,203	81,253	85,456
Tamil Nadu	25,939	5,605	31,544	26,058	5,613	31,671
Andhra Pradesh	61,075	268	61,343	64,689	267	64,956
Odisha	4,066	-	4,066	4,140	-	4,140
North Eastern Region	5,127	1,203	6,330	5,340	1,273	6,613
Total	209,385	209,590	418,975	213,462	209,808	423,270

Source: Ministry of Commerce and Industry, December 2015

Fig 1a. Arabica: Area; Production & Yield

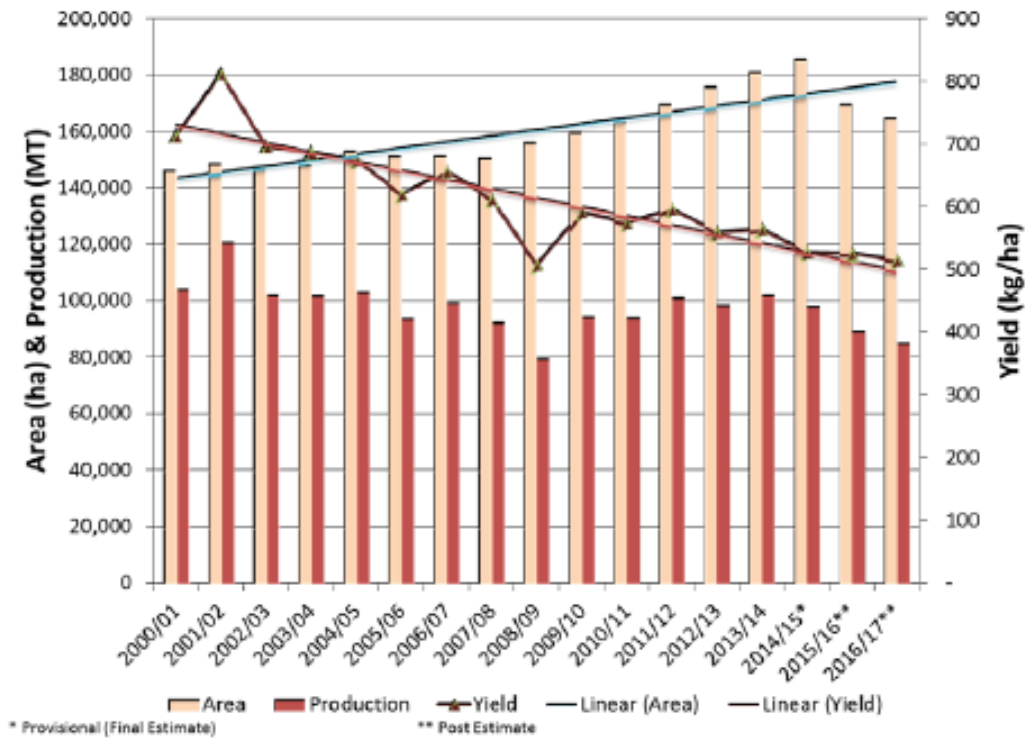
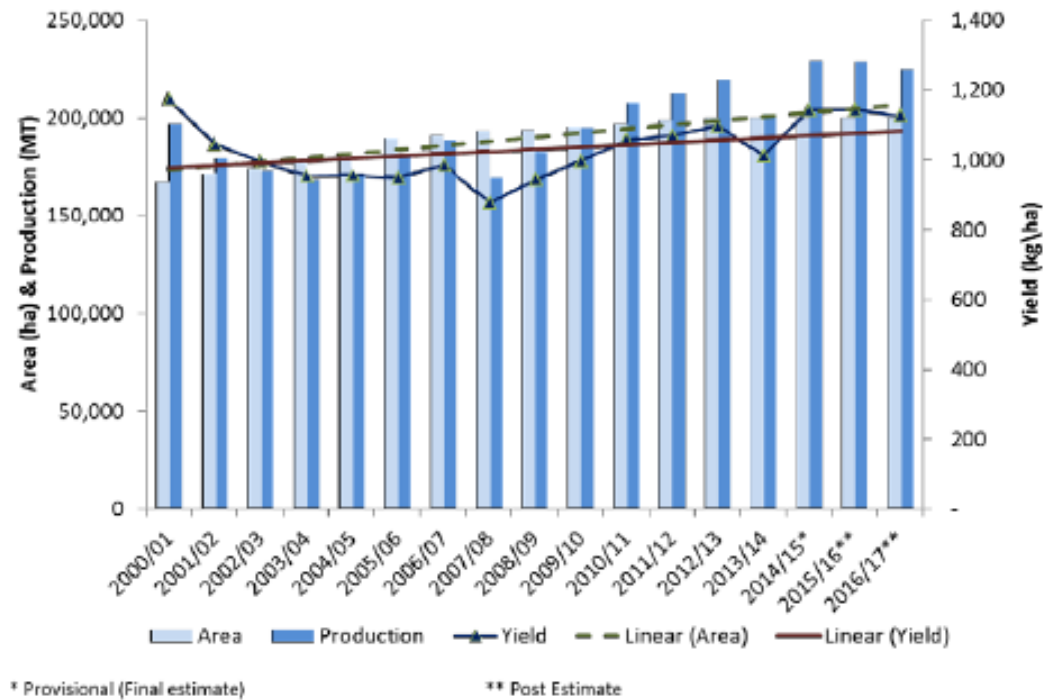


Fig 1b. Robusta: Area, Production and Yield



Consumption:

Consumption Increasing with the Spread of Coffee Shops and Restaurant Chains

The bulk of India's coffee production is exported and the domestic industry focuses much of its marketing effort on export promotion. There are signs that the popularity of coffee is increasing with the spread of both foreign and home-grown coffee shops and restaurant chains. However, exports continue to siphon large amounts of coffee away from the domestic market and consumption estimates are largely unchanged. The instant/soluble coffee segment is almost entirely branded and packaged, and is dominated by two multinationals, accounting for almost 90 percent of the total soluble coffee market.

While there is significant coffee consumption in India, for the purposes of this report, coffee consumption is effectively a residual of production less exports with some adjustment for estimated stock levels. Consequently, while coffee consumption appears to be growing moderately, it can be difficult to establish a repeatable trend given the industry emphasis on exports, especially when coffee prices and export demand are high. One reason for the large variation in some industry consumption estimates is the widespread use of chicory in the domestic market. Many popular instant coffees contain 20 to 40 percent chicory.

Tea continues to be the hot drink of choice for many Indian consumers. Consumers in southern India, where much of India's coffee is produced, consume more coffee than in other areas of the country. While there is a small but growing café culture, nearly all Indian coffee is consumed at home or in traditional street stalls as instant coffee. There is very little home use of ground coffee. Over the longer term, India coffee consumption is not likely to increase significantly until the practice of home consumption becomes more common. India's annual per capita coffee consumption is just 60 grams, slightly higher than China, but quite low when compared to consumption levels in most other countries.

Table 4. India: Coffee Bean Retail Prices in Major Consuming Centers, Rs. per Kilo 1

	Bangalore		Chennai		Hyderabad	
Year	Arabica	Robusta	Arabica	Robusta	Arabica	Robusta
Average 2007	137	87	170	91	150	89
Average 2008	150	114	157	118	164	127
Average 2009	210	105	215	109	229	119
Average 2010	217	98	225	104	233	110
Average 2011	297	131	300	134	314	141
Average 2012	247	156	298	148	309	170
Average 2013	199	157	229	182	250	190
Average 2014	311	169	321	187	332	185
Average 2015*	312	153	329	177	367	192

1\ Exchange Rate equals Rs. 66.5 per dollar as of May 5, 2016

*Average of data through Nov 2015

(Rs/kg of clean coffee beans of Arabic Plantation A & Robusta Cherry AB)

Source: Coffee Board of India

Trade:

Exports Remain an Essential Part of India's Coffee Situation

MY 2016/17 exports are forecast at 5 million 60 kg bags as the industry's focus on exports, a bigger crop, and continued demand from European buyers should raise volumes over the previous

year. Current MY 2015/16 exports are estimated at 5 million 60 kg bags (303,000 metric tons), based on trade estimates and steady demand from major European buyers. Export data in green bean equivalent from October, 2015 to January, 2016 shows a 15 percent increase in shipments compared to the same period last year. Even though prices are much lower since the beginning of the marketing year, the depreciation in rupee continues to provide support to exporters. The export data for MY 2014/15 has been revised based on DGFT data. Accordingly FAS Mumbai raised the export estimate to reflect available data.

Indian Robusta has a good reputation among international buyers and European countries continue to be the major buyers of Indian coffee. Italy, Germany, and Russia are the top export destinations for Indian coffee. India exports an estimated 90 percent of its production. Actual exports are virtually equivalent to production, but include 1.0 million bags of coffee that are imported duty free for processing and re-export under a special re-export program. Globally, the average ICO indicator prices for Arabica have fallen by 22 percent between January and November while Robusta prices have fallen by 17 percent. In India, the raw coffee prices in the largest coffee growing state of Karnataka as of April 27, 2016 for Arabica parchment and cherry have fallen by 8 and 3 percent respectively since beginning of marketing year (Oct/Sep), but Robusta parchment prices have risen by 19 percent. The rise in Robusta prices is on account of lower arrivals in the market and expectation of a lower crop harvested in MY 2015/16. But large carryover stocks are expected to keep prices low.

Domestic prices are largely driven by international prices and trade sources indicate that global supplies of Robusta are keeping prices at lower levels. Robusta prices are expected to remain firm until the onset of the next harvest as strong foreign demand pressures Indian supplies. As per coffee board trade data, the major shipment ports for coffee in India are Mangalore (Karnataka) and Cochin (Kerala) followed by Chennai (Tamil Nadu). Traditionally, January is when coffee exports begin.

Coffee Imports for Processing Trade Generally Steady

India's coffee imports are primarily from Vietnam, Indonesia, Uganda, and Kenya for processing and re-export. This coffee enters India free of duty provided it is re-exported under the provisions of a re-export program. Tariffs on imports of coffee are 100 percent and 30 percent for coffee derived products (See Table 7). Given the high tariffs, little coffee is imported for consumption in the domestic market.

**Table 5. India: Uncured Coffee Bean Farm Gate Prices in
Major Producing Centers, Rs. per 50kg 1**

	Chikmagalur		Sakaleshpur		Madikeri	
Year	Arabica	Robusta	Arabica	Robusta	Arabica	Robusta
Average 2009	6,752	1,869	6,418	1,872	6,459	1,929
Average 2010	6,949	1,940	6,894	1,821	6,966	1,870
Average 2011	10,144	2,663	10,151	2,606	10,061	2,600
Average 2012	7,984	3,000	8,053	3,036	8,046	3,036
Average 2013	6,393	2,945	6,411	2,956	6,473	3,056
Average 2014	10,011	3,399	9,952	3,728	9,805	3,349
Average 2015*	9,240	3,000	9,162	3,060	9,428	3,355

1\ Exchange Rate equals Rs. 66.5 per dollar as of May 5, 2016

*Average of data through Nov 2015

(Rs/kg of clean coffee beans of Arabic Parchment & Robusta Cherry)

Source: Coffee Board of India

**Table 6. India: Coffee Exports
(Oct/Sep Marketing Year, Includes Re-Exports)**

		MY 2008/09	MY 2009/10	MY 2010/11	MY 2011/12	MY 2012/13	MY 2013/14	MY 2014/15*
Sr. No.	Destination	Quantity (MT)	Quantity (MT)	Quantity (MT)	Quantity (MT)	Quantity (MT)	Quantity (MT)	Quantity (MT)
1	Italy	44,037	69,030	74,344	78,010	68,662	70,151	70,030
2	Germany	11,079	23,459	44,696	25,726	28,372	29,080	25,274
3	Russia	18,851	30,589	33,489	29,392	19,596	18,790	23,060
4	Turkey	1,361	1,947	1,714	4,906	9,905	14,179	15,597
5	Belgium	8,169	11,439	23,186	18,007	18,055	13,507	15,163
6	Slovenia	3,680	4,601	7,592	13,133	10,339	7,619	10,262
7	Liberia	-	-	-	3,879	-	5,835	6,985
8	Jordan	4,310	7,108	7,425	7,506	10,337	7,722	6,902
9	Malaysia	4,031	3,888	4,838	8,328	6,777	5,323	6,383
10	USA	2,556	6,177	5,892	6,376	5,804	5,982	5,533
11	Indonesia	541	624	-	1,932	4,855	10,645	4,595
12	Others	78,468	97,557	132,463	113,075	108,864	96,793	112,443
	TOTAL	177,083	256,419	335,639	310,270	291,566	285,626	296,700

*Provisional

Source: Coffee Board of India

Policy:

Funding for production and export programs is tied to India's five-year planning cycle. The twelfth five-year plan (2012-17) and the modalities for implementing the integrated coffee development project were approved and should continue under the remaining years of the twelfth five-year plan.

For details refer [XII Plan Support Schemes](#).

Table 7. India: Import Duty on Coffee and Related Products

HTS Code	Product description	Basic duty
0901.11	Coffee neither roasted nor decaffeinated	100%
0901.12	Coffee not roasted decaffeinated	100%
0901.21	Coffee roasted not decaffeinated	100%
0901.22	Coffee roasted and decaffeinated	100%
2101.11.10	Instant coffee flavored	30%
2101.11.20	Instant coffee not flavored	30%
2101.11.30	Coffee Aroma	30%
2101.11.90	Others	30%
2101.12.00	Preparations with a basis of extracts, essences or concentrates with a basis of coffee	30%

Table 8. India: Export Tax/Cess on Coffee and Related Products

S No.	Product description	Basic duty
1	Green	0%
2	Roasted	0%
3	Soluble	0%

Marketing:

Indian Coffee Marketing System

Common marketing practices include: 1) selling to exporters through an agent; 2) storing at a curing plant before selling; 3) selling at auctions; and 4) exporting directly. Small holders typically sell their parchment coffee (or dry cherry) to exporters through export agents and consolidators. The agent takes the coffee beans to the curing factory, where they are checked for quality against the standards of the destination country. Storing the coffee at a curing plant allows the coffee grower to retain ownership of the coffee before selling it in order to take advantage of price movements. Larger producers typically sell at auctions organized by the Indian Coffee Traders' Association or export directly.

Author Defined:

Café Culture Here to Stay

Hundreds of western-influenced coffee shops have emerged across India's major and smaller "second tier" cities over the past decade. Coffee now competes against the once dominant tea in these cafes, especially among younger consumers. A growing willingness to consume food and drink outside the home and increasing disposable income has helped to fuel growth in recent years, but the pace of expansion appears to have slowed in recent years. They are targeted at young professionals (particularly women) as a new lifestyle experience. A summary of some of the major chains follows.

Barista Lavazza: The Barista Lavazza is a chain of espresso coffee bars that operates around 200 outlets across India. Established in 2000 under the name Barista, the Indian chain was taken over by Italian coffee products manufacturer Lavazza in 2008. Barista offers menu items like espresso, lattes, cappuccino and various pastries, in addition to basic coffee.

Brewberrys Café: Opened in 2008 in Vadodara, Gujarat and presently has 45 stores in 15 states across India.

[BRU World Café](#): Hindustan Unilever has extended its only coffee brand BRU to a café chain, the BRU World Café. Launched in 2011, the chain currently has seven outlets across Mumbai.

[Café Coffee Day](#): Café Coffee Day offers nearly everything coffee-related, from take-home products and equipment to fully operational stores. Since the opening of the first store in Bangalore in 1996, Café Coffee Day has grown to become India's largest coffee retailer and is now exporting coffee to Europe and the Middle East. Café Coffee Day currently has over 1,400 outlets in 187 cities. Targeting a more affluent group, CCD launched coffee lounges and now have 50 outlets spread across major cities. In order to meet demands for premium coffees from around the world, CCD launched “The Square” catering to coffee connoisseurs. They have only five outlets, one each in Bangalore, Chennai and Mumbai and two in New Delhi.

[Caffé Pascucci](#): Italian coffee brand Café Pascucci opened its first outlet in Bangalore in 2013. The master franchisee reportedly has plans to set up 60 outlets.

[Coffee N U](#): The first Coffee N U outlet opened in 2008 in Bangalore, they now have a presence in 35 locations all over India.

[Coffee World](#): The chain currently has seven outlets across India.

[Costa Coffee](#): The British franchise has been in India since 2005 and has 100 locations.

[Cuppa Joe](#): Cuppa Joe is an independent café launched by Umbrella Hospitality in April 2012 in Mumbai. The company is reportedly considering expanding.

[Di Bella Coffee India](#): The chain is currently operating five outlets in Mumbai and one in Hyderabad.

[Dunkin Donuts](#): Jubilant Foodworks owns the exclusive franchise rights for Domino's Pizza in India, Nepal, Bangladesh and Sri Lanka and franchise rights for Dunkin' Donuts in India. The company runs 844 Domino's Pizza outlets and 66 Dunkin' Donuts restaurants across India.

[Gloria Jean's](#): Gloria Jean's Coffees, an Australian-owned global specialty coffee company in collaboration with a Dubai-based retail group, Landmark Group, opened its first café in India in 2008. The chain is currently operating 16 outlets.

[Javagreen](#): Javagreen is an Indian chain of in-store cafes started by the Reliance Group in 2003. It is now operational across eight cities with 40 locations in India.

[Krispy Kreme](#): Franchised by Citymax Hotels India, the hospitality division of the Dubai based Landmark Group, has a franchise agreement with Krispy Kreme Doughnut Corporation stores in South and the West India. Presently, they have 26 stores across Bangalore, Chennai and Mumbai.

[McCafe](#): McDonalds India has implemented its McCafe brand in certain existing restaurants. It is an in-coffee-house style food and drink chain owned by McDonalds. The first McCafe was launched in 2013 in Mumbai. There are 209 restaurants in West and South India and around

Mocha: Café Mocha started in Mumbai in December 2001 and now has 20 outlets.

Segafredo Zanneti: Franchised by Mayor Group in 2010, Segafredo Zanneti has one outlet in New Delhi.

Starbucks: The American coffee chain entered the Indian market in October 2012 in a joint venture with Tata Global Beverages. Currently the chain has 83 outlets.

The Coffee Bean & Tea Leaf: The franchise has 31 outlets across major cities.

Qwiky's Coffee: Qwiky's Coffee has 22 company-owned outlets concentrated in southern India.